

PIPER JAFFRAY

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ONE ARTICLE FROM DCR'S ECONOMIC INTELLIGENCE WEEKLY REVIEW
ENDING 30 MARCH 1977. REQUEST ARTICLE BE PASSED TO AMBASSADOR,
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

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DPEC OFFICIAL INVESTMENT IN UNITED STATES SLOWS.*

(OPEC FOREIGN OFFICIAL ASSETS ARE ASSUMED TO REMAIN IN THE COUNTRY WHERE THEY ARE INITIALLY PLACED UNTIL REMOVED BY THE ORIGINAL INVESTOR. SOME OPEC FUNDS MANAGED BY US FINANCIAL INSTITUTIONS, FOR EXAMPLE, ARE INVESTED IN NON-US SECURITIES; NO ATTEMPT IS MADE TO DETERMINE WHETHER THE NON-US SECURITY WAS PURCHASED FROM ANOTHER US HOLDER OR FROM A NON-US RESIDENT.)

1. IN 1977, OPEC OFFICIAL INVESTMENT IN THE UNITED STATES AMOUNTED TO \$6.6 BILLION, DOWN FROM THE 1976 LEVEL OF \$7.5 BILLION. MOST OF THE DROP WAS DUE TO DECREASED HOLDINGS OF US ASSETS BY ECUADOR, NIGERIA, AND VENEZUELA, EACH OF WHICH HAS BEEN EXPERIENCING BALANCE-OF-PAYMENTS DIFFICULTIES. THE PERSIAN GULF STATES OF KUWAIT, QATAR, SAUDI ARABIA, AND THE UNITED ARAB EMIRATES (UAE) CONTINUE TO BE THE LARGEST INVESTORS IN US ASSETS. BY YEarend 1977, OPEC ASSET HOLDINGS IN THE UNITED STATES HAD REACHED \$35.1 BILLION.

DECLINE IN SHORT-TERM ASSET HOLDINGS IN FOURTH QUARTER.

2. IN FOURTH QUARTER 1977, OPEC COUNTRIES LIQUIDATED \$1.6 BILLION OF THEIR SHORT-TERM US ASSET HOLDINGS. CARTEL MEMBERS DREW DOWN THEIR HOLDINGS OF SHORT-TERM US GOVERNMENT

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SECURITIES BY \$1.5 BILLION; IRANIAN AND KUWAITI SALES WERE ESPECIALLY HEAVY. SHORT-TERM BANK DEPOSITS, WHICH ARE MORE RESPONSIVE TO CHANGES IN EXCHANGE RATES THAN OTHER OPEC ASSETS, DECLINED BY \$150 MILLION AS THE DOLLAR WEAKENED; REDUCTIONS IN SHORT-TERM BANK DEPOSITS HAD OCCURRED ALSO IN THE THIRD QUARTER.

LONG-TERM INVESTMENT CLIMBS IN SECOND HALF.

3. INCREASED PURCHASES OF LONG-TERM US GOVERNMENT AND CORPORATE SECURITIES OUTWEIGHED THE SECOND HALF 1977 DROP IN OPEC SHORT-TERM INVESTMENT. ASSET HOLDINGS WITH MATURITIES EXCEEDING ONE YEAR REPRESENTED 70 PERCENT OF THE TOTAL OPEC US PORTFOLIO AT YEarend 1977; THREE YEARS BEFORE, THEY HAD REPRESENTED ONLY 15 PERCENT. THE RISE IN LONG-TERM INVESTMENT REVEALS THE DESIRE OF MAJOR OPEC INVESTORS--SAUDI ARABIA, KUWAIT, AND THE UAE--TO INCREASE THE RATE OF RETURN ON THEIR ASSET HOLDINGS.

4. KUWAIT INCREASED ITS INVESTMENT IN US CORPORATIONS IN THE LAST SIX MONTHS OF 1977. PLEASED WITH THE PERFORMANCE OF ITS US EQUITY HOLDINGS, KUWAIT EXPANDED THE LIST OF ACCEPTABLE US CORPORATE STOCKS TO NEARLY 450. DESPITE THEIR DESIRE TO ENLARGE US CORPORATE EQUITY HOLDINGS, THE KUWAIT GOVERNMENT WILL CONTINUE ITS POLICY OF ACQUIRING NO MORE THAN 2 PERCENT OF THE OUTSTANDING STOCK OF ANY US COMPANY.

5. THE CONSERVATIVE FINANCIAL PHILOSOPHY OF SAUDI MONETARY OFFICIALS IS ONE OF HOLDING DOWN SAUDI INVESTMENT IN US CORPORATIONS. LOWER RISK, COMBINED WITH ACCEPTABLE FIXED RATES OF RETURN, MAKES LONG-TERM GOVERNMENT SECURITIES MORE ATTRACTIVE. DURING SECOND HALF 1977, THE SAUDIS BOUGHT \$2.5 BILLION WORTH OF THESE DEBT INSTRUMENTS, DWARFING THE \$260 MILLION PURCHASED BY OTHER OPEC MEMBERS. AS OF 31 DECEMBER 1977 THE SAUDIS HAD ACCUMULATED \$12.3 BILLION IN LONG-TERM US GOVERNMENT SECURITIES.

UAE PULLS SOME FUNDS OUT OF THE UNITED STATES.

6. IN THE SECOND HALF 1977, UAE OFFICIAL HOLDINGS IN THE UNITED STATES DECLINED BY \$40 MILLION, THE FIRST DROP SINCE MID-1975. UAE INVESTMENT IN US CORPORATE SECURITIES, WHICH HAD BEEN QUITE HEAVY IN 1975-76, CAME TO A STANDSTILL IN THE FINAL QUARTER OF 1977; FOURTH QUARTER NET PURCHASES OF STOCK AND BONDS TOTALED \$5 MILLION, COMPARED WITH \$125 MILLION IN THE THIRD QUARTER. IN A RECENT SPEECH, DR. HASSAN ABBAS ZAKI, INVESTMENT ADVISER TO ABU DHABI RULER SHAYK ZAYID, URGED GULF

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STATES TO HALT THEIR INVESTMENT IN THE UNITED STATES BECAUSE OF ECONOMIC AND POLITICAL CONSIDERATIONS. SINCE THE INDIVIDUALS RESPONSIBLE FOR UAE OFFICIAL INVESTMENT ARE RELATIVELY SOPHISTICATED, HOWEVER, THE RETREAT FROM US CAPITAL MARKETS PROBABLY WILL BE TEMPORARY. (SECRET/NOFORN/NOCONTRACT) E1,2,3IMPDET WNINTEL.>
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